Why is co-operative education a fatal flaw in Australia?

David Griffiths

Every effort has been made to ensure that the information in this article is correct. The Co-operative Federation of Victoria Ltd and any employees or agents shall not accept any responsibility for loss or other consequence which may arise acting or refraining from acting as a result of material in this article.

These notes are a work in progress. Recommended corrections and additions welcome. Email comments 17 June 2003

Co-operative education is fundamental to the formation, development and ongoing character of co-operatives.

Co-operative education is a program established and provided to inform co-operative directors, members, managers, staff and the public about the values, principles and practices of co-operation with an emphasis on the practical skills of co-operation. This definition is based on but enhances the co-operative education definition provided by Jack Shaffer's Historical Dictionary of the Co-operative Movement, The Scarecrow Press Inc, 1999.

It is through co-operative education that potential, new and existing members relate to co-operative values and principles and their specific application to their co-operative and retain their connectivity to co-operation. Co-operative education has to begin with the formation process.

Members retaining connectivity to their co-operatives is equally dependent on co-operative education and participation. The nature of co-operation is not self-evident. Co-operation is a learning process.

Yet, co-operative education training is almost absent from the co-operative sector in Australia and this is a fatal flaw in the development and sustainability of co-operation in Australia.

The exception is the work undertaken by the Australasian Institute of Credit Union Directors http://www.aicud.com.au (AICUD). The AICUD provides introductory, diploma and special courses for credit union directors. AICUD was established in

1995 with the mission of enhancing its position as the pre-eminent educator and professional development provider for credit union directors in Australia and New Zealand.

For investor-owned companies there is the Australian Institute of Company Directors. The AICD strives to meet the information and education needs of directors, promote excellence in director performance, provide a valued directors' network, attract and retain members, be a successful advocate for directors issues and be a financially sound, efficient and caring organisation.

There are education opportunities for directors and members of co-operatives but the majority of these are not co-operative based – recognizing that the co-operative difference requires a different education. A unique exception for agricultural co-operatives is the Monash University Agribusiness Co-operative Directors' Seminar under the leadership of Dr. Lawrie Dooley. The Co-operative Federation of Victoria Ltd has also been working with Innoven to create a co-operative character and substance to an existing company director program.

For other co-operatives, Instead of a recognition of the co-operative difference, however, there is an assumption that business and director skills and experiences are generic to all forms of business enterprise whether co-operative, private or public.

This assumption is flawed, however, for the required skills are substantially different based on the differing purposes and structures of co-operatives and investor-owned companies. Member ownership and control of co-operatives creates a democratic structure and an accountability process that is different to the investor owners of companies.

A majority of co-operative directors who are directors, for example, should also be members dealing with the co-operative. In contrast, the governance reform agenda in Australia and overseas countries is advocating that a majority of directors of companies should be independent directors – directors who do not have a financial interest in the company. For co-operatives, however, a majority of directors should have a financial interest otherwise the member owners would no longer exercise control.

Education programs that do not recognise this difference will mis-educate co-operators.

That there are few co-operative education training opportunities in Australia is primarily because of a failure of the co-operative movement to demand and develop these opportunities. Educational providers cannot be blamed if co-operatives do not demand co-operative education.

This is a disquieting fact about Australia's co-operative movement – its inability and unwillingness to insist on and develop a co-operative education agenda.

A pragmatic movement

But, then, co-operation in Australia needs to be understood primarily for what it is and not what it should be. It is primarily a pragmatic movement and this pragmatism is crucial to understanding the development of the co-operative movement in Australia. A co-operative movement based on pragmatism does not have a commitment to co-operative values and principles – including education and training.

What we have, then, is an Australian co-operative movement based on various historical recollections, nostalgia for an undefined and unexamined co-operation and faith in and/or indifference to the co-operative commitments and interests of influential individuals. Individual co-operatives and co-operators may initiate their own or participate in Federation organized co-operative education but usually on an episodic rather than an ongoing basis.

Co-operative values and principles do underpin co-operation in Australia but not systematically and coherently. There are individuals and groups within co-operatives committed to co-operative values and principles but they are not necessarily a majority. Some co-operatives have commissioned a history of the cooperative and these are critically important contributions to understanding co-operation and to co-operative education.

The nature of this pragmatism is reflected and reinforced in co-operative legislation, co-operative formation, the demutualization of co-operatives, marketing the co-operative advantage and co-operation between co-operatives.

Co-operative Legislation

There is a significant difference between co-operative legislation throughout Australia and overseas legislation. While all the co-operative legislation includes the co-operative principles, how these principles are presented is significantly different.

Section 3 of the Andhra Pradesh (India) Mutually Aided Co-operative Societies Act 1995 provides in (e) that all co-operative societies shall make provision for the education of their members, office-bearers and employees and of the general public, in the principles and techniques of co-operation, both economic and democratic.

Canada's Canada Cooperatives Act 1998, for instance, specifies in 7 (1) For the purpose of this Act a co-operative organized and operated, and carries on business, on a co-operative basis if it (h) educates, o0fficers, employees and the public on the principles and techniques of co-operative enterprise.

Section 4 Co-operative Principles of The Co-operative Code of the Philippines Republic Act No 6938 of 1990 specifies in (5) Co-operative education. All co-operatives shall make provision for the education of their members, officers and employees and of the general public based on the principles of co-operation.

In contrast, Victoria's Co-operatives Act 1996 includes in Division 3 – The co-operative principles and includes 5. Education, training and information Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operative. They inform the general public, particularly young people and leaders, about the nature and benefits of co-operation.

Subsequently, it is stated in 7 Interpretation to promote co-operative principles it is stated: In the interpretation of a provision of this Act or the regulations, a construction that would promote co-operative principles is to be preferred to a construction that would not promote co-operative principles.

There is no legislative expectation, therefore, that Australia's co-operatives will practice co-operation. Instead, there is a pragmatic out clause of 'promoting' rather than practicing co-operation.

Existing State co-operative legislation has active membership provisions. These require specification of how members are to be economically active in their relationship to the co-operative e.g. purchasing and/or providing goods and/or services.

Members of all co-operatives, however, have both economic and political relationships with their co-operatives and for co-operatives to demonstrate co-operative practice it is necessary for members to be both economically and politically active. Politically active would include nominating as a director, attending general meetings and participating in co-operative education.

An alternative legislative approach in Australia, therefore, would have been to base active membership requirements on all the co-operative values and principles - including co-operative education. Schedule 1 of the Victorian Government's Co-operatives Act 1996 lists those matters that should be included in the rules of all co-operatives. This includes active membership provisions. It does not include, however, any requirements for co-operatives to provide for how they will comply with co-operative values and principles - including co-operative education.

That this was not provided for in Australia's state co-operative legislation primarily reflects the pragmatic reality of Australia's co-operatives. Many of the large agricultural co-operatives, for instance, are incorporated under Australian Government Corporations Law and structurally and organisationally they have a co-operative approach and style. There was a slight hope that some would transfer to the new co-operative legislation in and after 1996 but, unfortunately, they would not have complied with the state legislation and, separate from this, Corporations Law provided more flexibility.

Co-operative Formation

It is when the formation of a co-operative is under consideration that co-operative education should begin to educate members about the co-operative option.

The typical formation process, however, does not include co-operative education and training. Instead, the emphasis is on the procedural formation process – meeting the legislative requirements for registering a co-operative.

No or little attention is being given to the substance of co-operation – the values and principles of co-operation, the character of member ownership and control.

Instead, there is a reliance on:

- The good feel of co-operation and the positive connotations of co-operation as an assumed desired value.
- The co-operative knowledge and experience of leaders who initiated and/or are driving the co-operative formation process.

The formation decision should involve a consideration of different business structures – including the respective strengths and weaknesses. If a decision is made to form a co-operative, **the subsequent formation process** should involve a co-operative education program and process.

Muddling through co-operation will only build-in the ingredients of failure.

Demutualisation

The successful **demutualisation** of agricultural co-operatives, building societies and insurance co-operatives in Australia has been facilitated by this co-operative pragmatism. There has been an absence of robust and ongoing co-operative education and training in those co-operatives that have been subsequently demutualised. If co-operative education was robust and sustained, then, demutualisation would not have succeeded to the extent that it has for members would retain a connection with their co-operative and would be in a better position to judge the co-operative consequences of demutualisation proposals.

In the absence of co-operative education and training, members of co-operatives have been disconnected from their co-operatives and have become increasingly susceptible to board, consultants and managers who have urged the demutualisation option. e.g.

Australian Mutual Provident Society

Australian Stock Exchange (1998)

Canberra Permanent Co-operative BS (1990)

Colonial Mutual Life Assurance Society (1996)

NRMA Insurance

St. George's BS (1987)

Sunstate Credit Union

The Co-operative BS of SA (1994)

Marketing Our Advantage

Co-operatives as business enterprises compete in the market and, therefore, must develop marketing strategies to promote their products and services. But, the typical marketing strategy of a co-operative is indistinguishable from the marketing strategy of an investor-owned company.

Initially, this is not surprising for the products and services are usually indistinguishable e.g. books, credit, energy purchasing, hardware, health services and housing. But, what is distinguishable between a co-operative and an investor-owned company is their differing purposes and structures.

A co-operative is member-owned and controlled. Its primary purpose is service to its member users who benefit from the co-operative. Co-operatives are, therefore, service-driven. Needless to say, this is not inconsistent with profit/surplus-making. An investor-owned company is capital-drive. The investors primarily interest is a return on their capital and not using the services of the company. Co-operatives are also democratic with one vote per member irrespective of their shareholding in and usage of the co-operative. The investor-owned company is not democratic. They are controlled by a majority of shares.

These differences are substantial. If co-operatives believe in these differences, then, they should also believe in the advantage of being a co-operative and the

subsequent opportunity to **market this co-operative difference.** Regretfully, a majority of co-operatives in Australia do not appear to either understand and/or agree that there is an advantage in marketing the co-operative difference. To the extent that co-operatives do not market the co-operative difference and advantage, this is a further indicator of the failure of co-operatives to realize and acknowledge the significance of the co-operative difference.

If co-operatives lack a robust and ongoing co-operative education and training program, it is not surprising that marketing is immune to the co-operative difference and advantage.

Co-operation between Co-operatives

Significant co-operatives in all States do support their respective state federations and this support has been ongoing.

A majority of registered co-operatives in Australia, however, are not members of the various State co-operative federations. This is a further indicator of the failure of many co-operatives to accept and practice the principle of co-operation between co-operatives.

It is also an indicator that a business is only a legal co-operative. That a business is incorporated as a co-operative does not equate with an understanding of and commitment to co-operative values and principles and, therefore, it should not be surprising that these legal co-operatives neither understand nor accept the principle of co-operation between co-operatives.

Co-operative Education Agenda

What this brief discussion has emphasized is that robust and ongoing co-operative education has a critical role in:

- ☑ Co-operative formation decision and process.
- ☑ Enabling directors and members to assess the co-operative credentials and consistency of managers.

- ☑ Enabling directors and members to judge whether business plans and procedures reflect and reinforce co-operative values and principles.
- ☑ Assisting members of co-operatives in examining proposals for co-operative growth.
- ☑ Assisting members of co-operatives in analyzing proposals for demutualization.
- ☑ Providing a logical basis for marketing the co-operative difference as an advantage.
- ☑ Facilitating co-operation between co-operatives.

Each co-operative should develop a co-operative education agenda for directors, managers, members and staff. If the formation process included co-operative education and training, this agenda should develop naturally. Provision for co-operative education should be made in the rules of every co-operative. It should also be a director qualification, for instance, that directors must participate in co-operative education.

Ideally, state co-operative legislation should be revised to include the expectation that co-operative values and principles will be practiced e.g. there will be provision for ongoing co-operative education. This is not a panacea, however, for the practice of co-operative values and principles, including co-operative education, should be voluntarily-driven by co-operatives. It should not be necessary for legislation to prescribe co-operative practice. The primary purpose of co-operative legislation is to protect, not preach, co-operation.

In recent years the Co-operative Federation of Victoria Ltd has attempted to address the co-operative education agenda through the development of a director kit, supporting the Monash University Agribusiness Workshop, working with Innoven and the establishment of australia.coop These are useful contributions that demonstrate an enlightened leadership but, ultimately, their relevance depends on individual co-operatives and co-operators committed to co-operative values, principles - and practice.

Co-operative education will not assume its essential role in the formation and development of co-operatives until co-operatives integrate their business activities with co-operative values and principles through co-operative education.

It could be argued that co-operative education should be compulsory for intending and existing co-operators - that they should be forced to practice co-operative principles. The basis for this argument is that without a co-operative practice legal co-operatives are undermining the values and principles of co-operation because of the absence of a meaningful co-operative practice and, because of this, they are not role models of co-operation. In fact, they are negative role models.

But, this argument for compulsion is problematic for co-operation embraces voluntary democracy - not compulsion. It is also problematic, however, that businesses are registered as co-operatives when their understanding and application of co-operative values and principles is limited. Instead, it is to be hoped that co-operatives will voluntarily decide that members should be required to participate in co-operative education programs - a voluntary decision for compulsion.